

DISCLAIMER

This electronic version of an SCC order is for informational purposes only and is not an official document of the Commission. An official copy may be obtained from the [Clerk of the Commission, Document Control Center](#).

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, MARCH 24, 2003

APPLICATION OF

SOUTHWESTERN VIRGINIA
GAS COMPANY

CASE NO. PUE-2002-00517

For an expedited increase
in rates

FINAL ORDER

On September 23, 2002, Southwestern Virginia Gas Company ("SVGC" or the "Company") filed a rate application, supporting testimony and exhibits with the State Corporation Commission ("Commission") for an expedited increase in rates. The Company sought to increase its annual revenues by \$433,435, an increase of approximately 5%. The Company also proposed to increase its reconnection fee from \$30 to \$50, and requested that the increase in rates and the reconnection fee be allowed to go into effect for bills rendered on and after October 31, 2002.

The Company requested a waiver from reporting certain information for its parent, Southwestern Virginia Energy Industries, Ltd. ("Parent"), and the consolidated information of the Parent and the Company as required in the Commission's Rules Governing Utility Rate Increase Applications and Annual Informational Filings, 20 VAC 5-200-30, et seq., on Schedules 1, 2, 6, and 7. The Company contends that: (1) the Parent has

historically never contributed to the raising of capital for the Company; (2) the Parent has historically never assisted the Company in raising capital either by guaranteeing debt or in any other manner securing the Company's obligations; (3) the Parent is a closely held corporation and not traded publicly; and (4) the Parent does not have financial statements prepared for public distribution.

The Company further requested a waiver of the requirement to prepare a jurisdictional cost of service study. In support of that request, SVG C stated that it serves very few governmental non-jurisdictional customers; in fact, the Company states that the only non-jurisdictional customers - government offices and schools - represent less than 1.1% of the Company's customers and 2.8% of its gas throughput. According to SVG C, these non-jurisdictional customers pay for service on the basis of Commission-approved rates; thus, there is virtually no impact on the per customer cost of service and no economics justification to expend the money, time and effort to create a non-jurisdictional cost study.

By Order dated October 11, 2002, as amended on October 18, 2002, the Commission authorized the Company to place its proposed rates into effect on an interim basis subject to refund. The Commission also established a procedural schedule

for the case, and set a hearing date for February 11, 2003, to receive evidence on the Company's application.

The hearing was convened as scheduled on February 11, 2003. Richard D. Gary, Esquire, appeared as counsel for the Company. Allison L. Held, Esquire, and Katharine A. Hart, Esquire, appeared as counsel for the Staff. No public witnesses appeared to offer comments on the application.

The Company and Staff offered a Stipulation at the hearing in which they proposed to offer the prefiled testimony into the record without causing the witnesses to come forward and be subject to cross-examination. The Stipulation sets forth the Company's and Staff's agreement that the record supports a fair and reasonable annual increase in revenues of \$339,052 based on the capital structure and cost of capital reflected in the Staff's testimony and exhibits. The increase is based on a return on equity of 10.3%, and a range of 9.8% to 10.80%.

At the hearing, the Company offered the prefiled testimony of Lance G. Heater, executive vice president-chief operating officer, and Bernadette J. Stowe, assistant treasurer. The Staff prefiled the testimony of John B. Barker, a senior public utility accountant with the Commission's Division of Public Utility Accounting, John R. Ballsrud, a principal financial analyst in the Division of Economics and Finance, and David A. Roberts, a utilities analyst in the Division of Energy

Regulation. Pursuant to the Stipulation, all of the prefiled testimony was marked and entered into evidence without subjecting the witnesses to cross-examination.

In the Stipulation and at the conclusion of the hearing, counsel for the Company requested that SVG C be permitted to place the lower rates into effect, since the revenue requirement in the Stipulation is lower than the revenue requirement that rates now in effect on an interim basis are designed to recover. Such action would decrease the Company's ultimate refund liability.

On February 26, 2003, Chief Hearing Examiner Deborah V. Ellenberg issued a Report in which the Examiner summarized the record, and reviewed and analyzed the evidence and issues in this proceeding. In the Report, the Examiner granted the Company's request to place lower rates into effect for bills rendered on and after February 28, 2003. The Examiner's Report also included the following findings and recommendations:

(1) The use of a test year ending June 30, 2002, is proper in this proceeding;

(2) SVG C's test year operating revenues, after all adjustments, were \$8,633,532;

(3) SVG C's test year operating deductions, after all adjustments, were \$8,411,737;

(4) SVGC's current rates produce a return on adjusted rate base of 4.115%;

(5) A reasonable return on equity for SVGC is in the range of 9.80% to 10.80%, and the midpoint of 10.30% should be used to calculate rates;

(6) SVGC's adjusted test year rate base is \$5,232,579;

(7) SVGC requires \$339,052 in gross annual revenues to earn a return on rate base of 8.127%, and a return on common equity of 10.30%;

(8) SVGC's proposed increase in its reconnection fee from \$30 to \$50 is reasonable;

(9) The Company should be directed to prepare a depreciation study within one year of the Final Order in this case and every five years thereafter; and

(10) The Company should be granted a waiver of the rules requiring the report of information for its Parent, the consolidated information of the Company and its Parent, and a jurisdictional cost of service study.

The Examiner recommended that the Commission adopt the Stipulation and the findings in her Report, grant the waivers requested by the Company, and grant an increase in annual gross revenues of \$339,052, and an increase in the reconnection fee to \$50. The Examiner also recommended that the Commission direct the Company to refund with interest any excess revenues that

have been collected, and to perform a depreciation study within one year of this Order and every five years thereafter.

On March 4, 2003, counsel for SVG C filed a letter stating that it has reviewed the Report and takes no exception to it.

NOW THE COMMISSION, having considered the record, the Stipulation, the Examiner's Report, and the applicable law, is of the opinion and finds that the recommendations of the Examiner should be adopted.

Accordingly, IT IS ORDERED THAT:

(1) The findings and recommendations of the February 26, 2003, Hearing Examiner's Report are hereby adopted.

(2) Rates reflecting the new revenue requirement will be billed to the Company's customers beginning with the February 2003 billing cycle.

(3) On or before July 1, 2003, SVG C shall recalculate, using the rates and charges prescribed in Paragraph No. 2 above, each bill it rendered that used, in whole or in part, the rates and charges that took effect under bond and subject to refund on October 31, 2002. Where application of the new rates results in a reduced bill, SVG C shall refund the difference with interest as set out below.

(4) Interest upon the ordered refunds shall be computed from the date payments of monthly bills were due to the date each refund is made at the average prime rate for each calendar

quarter, compounded quarterly. The average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the prime rate values published in the Federal Reserve Bulletin or in the Federal Reserve's Selected Interest Rates (Statistical Release H.15) for the three months of the preceding calendar quarter.

(5) The refunds ordered in Paragraph No. 3 above may be credited to current customers' accounts (each refund category shall be shown separately on each customer's bill). Refunds to former customers shall be made by check mailed to the last known address of such customers when the refund amount is \$1 or more. SVG C may offset the credit or refund to the extent of any undisputed outstanding balance for the current or former customer. No offset shall be permitted against any disputed portion of an outstanding balance. SVG C may retain refunds owed to former customers when such refund is less than \$1. SVG C shall maintain a record of former customers for which the refund is less than \$1, and such refunds shall be promptly made upon request. All unclaimed refunds shall be subject to § 55-210.6:2 of the Code of Virginia.

(6) On or before August 1, 2003, SVG C shall deliver to the Divisions of Public Utility Accounting and Energy Regulation a report showing that all refunds have been made pursuant to this

Order and detailing the costs of the refund and the accounts charged.

(7) SVGC shall bear all costs incurred in effecting the refund ordered herein.

(8) Since there is nothing further to come before the Commission, this case is hereby dismissed and the papers herein placed in the Commission's file for ended causes.